



PENNANT PETROLEUM LTD.

**ANNUAL REPORT
1995**

CORPORATE PROFILE

Pennant Petroleum Ltd., is a junior oil and gas company focused on the exploration and production of crude oil and natural gas properties in Western Canada. The Shares of Pennant are listed for trading on the Alberta Stock Exchange under the symbol "PPL".

CORPORATE HISTORY

Pennant Petroleum Ltd. was incorporated on February 10, 1995 pursuant to the provisions of the Business Corporations Act (Alberta). A public offering of securities was made under a prospectus dated April 20, 1995 and the common stock commenced trading July 4, 1995 on the Alberta Stock Exchange under the symbol "PPL". The Company became a fully listed junior oil and gas company on December 11, 1995 upon receiving shareholder approval of its major transaction at a special meeting held on November 17, 1995

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Pennant Petroleum Ltd., will be held on June 4, 1996 at 11:00 A.M. in the Viking Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

TABLE OF CONTENTS:

2	_____	Highlights
2	_____	Report to the Shareholders
5	_____	Financial Statements
10	_____	Notes to Financial Statements
13	_____	Corporate Information

HIGHLIGHTS

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

FINANCIAL

1. Sale of securities raised a total of \$521,250.
2. Private Placement of Flow-Through shares issued at \$0.25 per share raised \$305,000 net to the Company.
3. Purchase of a 13% (BPO) and 6.5% (APO) interest in an oil well for \$150,000 plus the issuance of 1,375,000 common shares for the option to earn an interest in 1,920 additional acres to qualify as our Major Transaction.

OPERATIONS

1. Acquired an interest in a recently drilled Elkton Formation discovery oil well located at 10-21-23-28 W4M.
2. Participated in the drilling of two successful oil wells located at 4-21-23-28- W4M and 12-21-23-28 W4M.
3. Paid its share of a pipeline from 10-21-23-28 W4M to the Battery in 7-33-23-28 W4M.
4. Participated with an industry partner in the drilling of a exploratory well in the Kakwa area of northern Alberta. The well was dry and abandoned in March of this year earning an undivided 10% interest in 1,920 acres.

REPORT TO THE SHAREHOLDERS

I am very pleased to report the Company was successful during its first year of operation. The issuance of our common stock to the public was well received and this enabled the Company to have the cash required to complete its major transaction in November of 1995 and participate in the drilling of four wells.

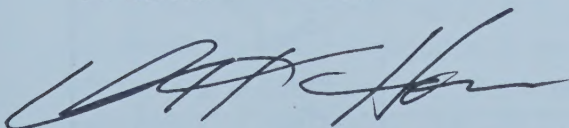
As of January 15th, the Company was producing 50 boed from the interest in the Chestermere prospect. This production should increase substantially in the near future as we install more pipeline and battery facilities to accommodate additional production. The Company also anticipates production from a fourth successful well recently drilled on the Chestermere prospect.

Pennant is confident that its cash flow for 1996 will enable the Company to pay its share of the ongoing drilling, pipeline and facility costs associated with the development of the Chestermere prospect.

The Company is looking forward to '96 as a year of continued success as management seeks further participation in projects which will enhance our share value.

We thank our Board of Directors and our shareholders for their continued support.

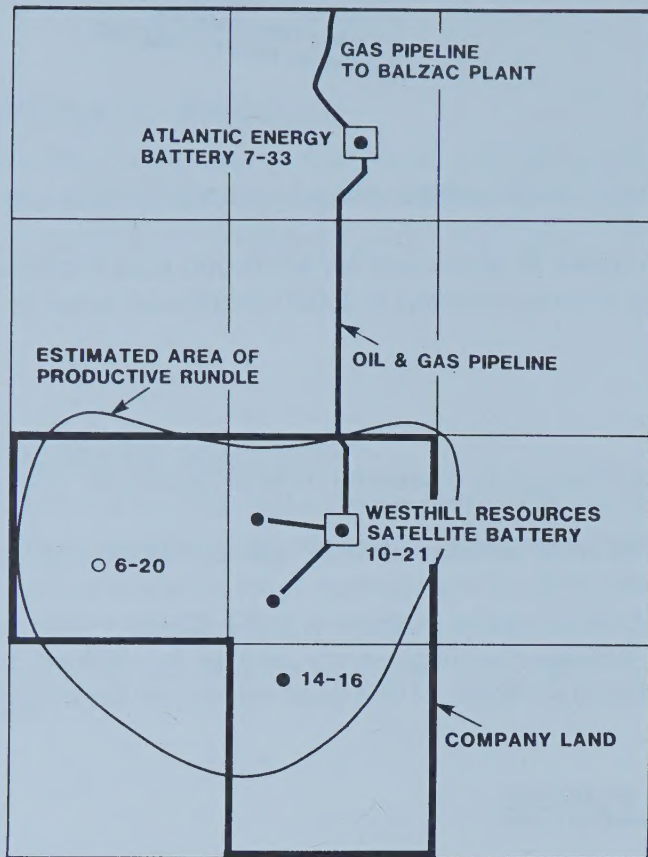
On Behalf of the Board



ORVAL K. HORN
PRESIDENT AND C.E.O.

April 19, 1996

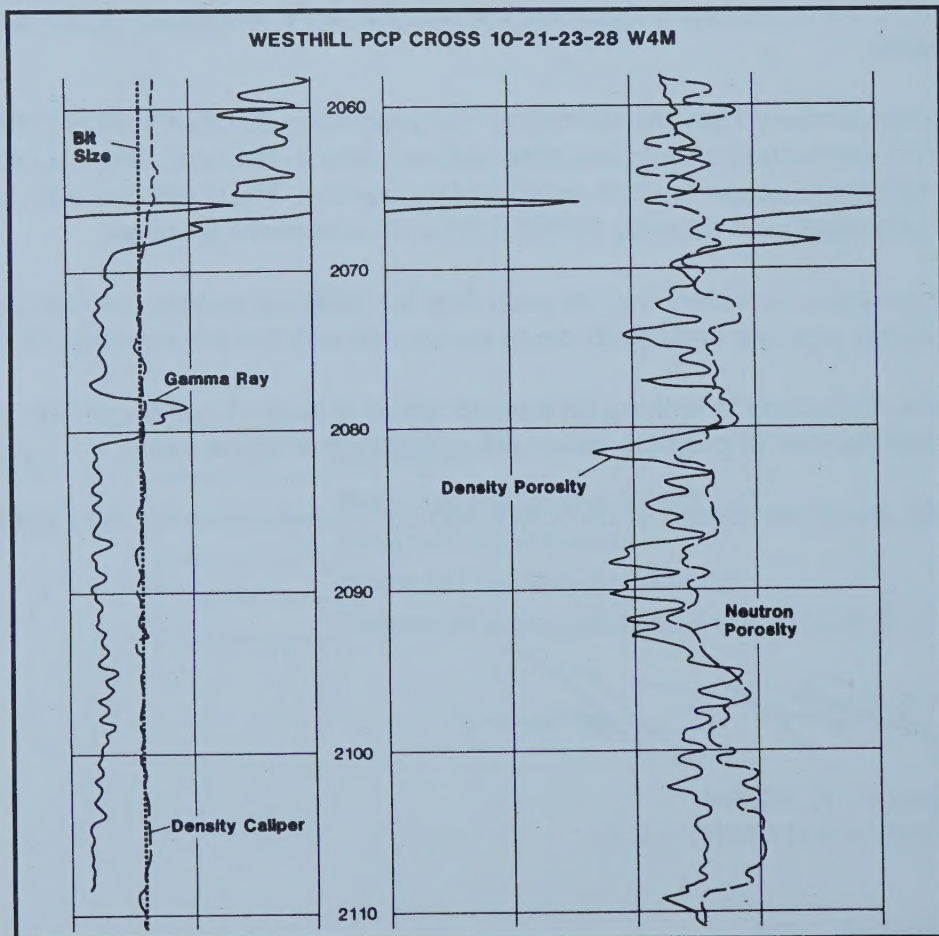
R.28 W.4



T.23

Chestermere
Prospect Location Map

Porosity Log of
Chestermere Discovery Well



CHESTERMERE RUNDLE PROPERTY

The Chestermere Rundle oil and gas discovery was made by Westhill Petroleum Ltd., by the drilling of well Westhill PCP Cross 10-21-23-28 W4M. The well encountered a full section of Rundle formation consisting of a Turner Valley zone and an Elkton zone. The well logs indicated the Elkton zone to be porous and oil bearing, while the Turner Valley was thought to be gas bearing. Well logs also indicated the Belly River zone to have gas potential.

By the drilling and completion of 10-21, Westhill and its partners earned a 100% interest in the NE $\frac{1}{4}$ of Section 21-23-28 W4M (Pennant 13% Working Interest) before payout and 50% interest after payout (Pennant 6.5% W.I.). The drilling of 10-21 also earned Westhill and its partners a 50% interest (Pennant 6.5% W.I.) in the balance of Section 21 and the NW $\frac{1}{4}$ of Section 16-23-28 W4M. The remaining three quarters of Section 16 and all of Section 20 were acquired at a Crown land sale or through Freehold Mineral Leases. Westhill and its partners acquired a 50% interest in these lands (Pennant 6.5% W.I.).

The Elkton zone in 10-21-23-28 W4M wellbore was perforated and acidized in June 1995. A week long production test reported an oil rate of 330 bopd and a gas rate of 2.8 mmcf/d at a flowing surface pressure of 1,750 psig for a draw down of 17%. The EUB has recently classified the Elkton zone in 10-21 as the Crossfield Rundle P Pool and assigned an allowable of 205 bopd.

The first development well was drilled at 4-21-23-28 W4M. The Elkton pay was perforated and required an acid frac to yield commercial oil inflow. The well was placed on pump and has been pumping at a rate of 60 bopd. The EUB has designated the 4-21 well in the Crossfield Rundle P Pool and assigned an allowable of 53 bopd.

The second development well or third well in the Chestermere Rundle prospect was drilled at 12-21-23-28 W4M. The well encountered a full Rundle section. The oil bearing section of the Elkton zone was perforated, acidized and production tested during November 1995. Test results showed the oil rate to be 130 bopd, gas rate to be 3.5 mmcf/d at a surface flowing pressure of 1,980 psig for a draw down of 6%. The well has been placed on production April 1, 1996.

A delineation well for the Crossfield Rundle P Pool at a surface location of 14-16-23-28 W4M has been drilled and cased as an oil well. As soon as a surface location can be acquired a well is also planned in 6-20-23-28 W4M to further delineate the Rundle pool discovered in 12-21-23-28 W4M.

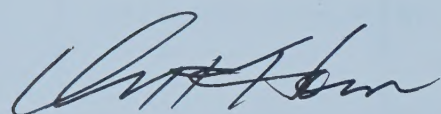
A satellite battery has been constructed at 10-21-23-28 W4M and wells 4-21, 10-21 and 12-21 have been tied into the battery during November and December 1995. Effluent from the satellite battery is transported by a pipeline to the Atlantic Energy facility at 7-33-23-28 W4M for processing. Gas from the Atlantic facility is transported by pipeline to the Canadian Occidental Balzac gathering system and gas plant. Capacity limitations in the Atlantic Energy and Canadian Occidental gathering system has limited gas production from the Westhill property to 3.5 mmcf/d. The ongoing operation and further delineation of the Rundle play will provide additional geological and engineering information necessary to develop a depletion plan for the Rundle reserves. This depletion plan will help to identify the expansion facilities and pipeline for the project.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

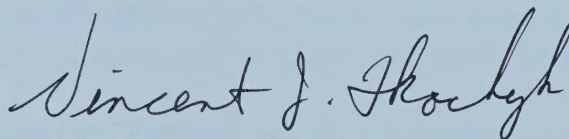
Management is responsible for the preparation and presentation of the accompanying financial statements and for ensuring that all other financial and operating information presented is consistent with the financial statements.

Management has established and maintains a system of internal controls to provide reasonable assurance that all assets are managed efficiently and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The report of the auditors is set forth on page 6. The Audit Committee, consisting of a majority of non-management directors, is responsible for overseeing the financial reporting process. The Audit Committee has reviewed the financial statements with management and the external auditors and has reported to the Board of Directors. The Board has approved the financial statements.



ORVAL H. HORN
President and
Chief Executive Officer



VINCENT J. TKACHYK
Vice President and
Chief Financial Officer

April 19, 1996

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Pennant Petroleum Ltd. as at December 31, 1995 and March 15, 1995 and the statements of operations and deficit and changes in financial position for the period from the date of incorporation on February 10, 1995 to December 31, 1995. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and March 15, 1995 and the results of its operations and the changes in its financial position for the period from the date of incorporation on February 10, 1995 to December 31, 1995 in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne
Chartered Accountants

Calgary, Canada
March 29, 1996

PENNANT PETROLEUM LTD.

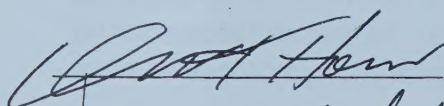
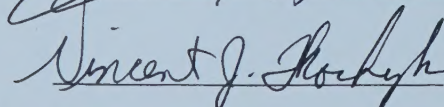
Balance Sheets

December 31, 1995 and March 15, 1995

	December 31, 1995	March 15, 1995
Assets		
Current assets:		
Cash and term deposits	\$ 556,310	\$ 75,000
Accounts receivable	3,984	—
	560,294	75,000
Property and equipment	424,042	—
	\$ 984,336	\$ 75,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 261,429	\$ —
Shareholders' equity:		
Capital stock (note 3)	727,602	75,000
Deficit	(4,695)	—
	722,907	75,000
	\$ 984,336	\$ 75,000

See accompanying notes to financial statements.

On behalf of the Board:

 Director
 Director

PENNANT PETROLEUM LTD.

Statement of Operations and Deficit

Period from incorporation on February 10, 1995 to December 31, 1995

Revenue:	
Interest and other income	\$ 17,418
Expenses:	
General and administrative	22,113
Loss for the period, being deficit at end of the period	\$ (4,695)

Loss per share	\$ —
----------------	------

See accompanying notes to financial statements.

PENNANT PETROLEUM LTD.

Statement of Changes in Financial Position

Period from incorporation on February 10, 1995 to December 31, 1995

Cash provided by (used in):

Operations:

Loss for the period, being cash flow	\$ (4,695)
--------------------------------------	------------

Financing:

Issuance of common shares, net of shares held in escrow	727,602
---	---------

Investments:

Additions to property and equipment	(424,042)
-------------------------------------	-----------

Changes in non-cash working capital	257,445
-------------------------------------	---------

	(166,597)
--	-----------

Increase in cash, being cash at end of the period	\$ 556,310
---	------------

Cash flow per share	\$ —
---------------------	------

Cash is defined as cash and term deposits.

See accompanying notes to financial statements.

PENNANT PETROLEUM LTD.

Notes to Financial Statements

Period from the date of incorporation on February 10, 1995 to December 31, 1995

Incorporation:

Pennant Petroleum Ltd. was incorporated as 642672 Alberta Ltd. by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta) on February 10, 1995. The name of the Corporation was changed to Pennant Petroleum Ltd. by certificate of amendment dated March 14, 1995.

1. Significant accounting policies:

(a) Joint venture accounting:

All of the Company's exploration, development and production activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

(b) Oil and gas operations:

The Company has adopted the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized and accumulated in cost centres. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and the costs of drilling both productive and non-productive wells.

The costs, together with the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated proven reserves. Oil and gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Costs of acquiring and evaluating unproven properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or when the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The capitalized costs less accumulated depletion and depreciation, deferred income taxes and the provision for future site restoration costs are limited to an amount equal to the estimated future net revenue from the estimated proven reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproven properties less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

PENNANT PETROLEUM LTD.

Notes to Financial Statements, page 2

Period from the date of incorporation on February 10, 1995 to December 31, 1995

1. Significant accounting policies (continued):

Oil and gas operations (continued):

Estimated future site restoration costs are provided on the unit-of-production method based on the estimated proven reserves. Estimated costs are based on engineering estimates in accordance with current legislation and industry practices. The annual charge is recorded as additional depletion and depreciation. Actual expenditures are charged to the accumulated provision account as incurred.

Proceeds from the sale of oil and gas properties will be applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

2. Acquisition of oil and gas interests:

On December 11, 1995 the shareholders approved a major transaction to purchase certain oil and gas interests from private corporations controlled by two directors of the Company in exchange for \$150,000 and 1,375,000 common shares at \$0.20 per share.

The shares issued are held in escrow. The escrow agreement allows for the release of these shares as follows:

- (i) one common share will be released for each \$0.20 of cumulative cash flow generated by the reserves that were classified as probable on December 31, 1995; or
- (ii) one common share will be released for each \$0.20 of proved producing value which an independent engineering report indicates resulted from reserves classified as probable on December 31, 1995.

The maximum number of escrowed shares released in any one year will be one third of the original number of shares subject to the escrow agreement. In the event that the above requirements are not met prior to a date being three years from the date of shareholder approval of the transaction, the shares will be cancelled and returned to treasury.

At December 31, 1995 it cannot be reasonably determined how many shares will ultimately be released from escrow. Accordingly, capital stock will be increased by \$0.20 per share when the number of shares to be released can reasonably be determined.

PENNANT PETROLEUM LTD.

Notes to Financial Statements, page 3

Period from the date of incorporation on February 10, 1995 to December 31, 1995

3. Capital stock:

Authorized:

Unlimited number of common voting shares without nominal or par value.

Issued:

	Number of shares	Consideration
On incorporation	1,500,000	\$ 75,000
Public offering	4,250,000	425,000
Flow-through shares	1,220,000	305,000
Exercise of underwriter's options	212,500	21,250
Major transaction (note 2)	1,375,000	275,000
Less: Shares held in escrow on major transaction		(275,000)
Share issue costs		(98,648)
Balance, December 31, 1995	8,557,500	\$ 727,602

The 1,500,000 shares issued on incorporation are held in escrow. Upon the written consent of the Chief of Securities Administration of the Alberta Securities Commission one-third of these shares will be released on each anniversary of the completion of the major transaction.

During the period ended December 31, 1995 the Company issued 1,220,000 flow-through shares for cash consideration of \$305,000 (\$0.25 per share). The Company will renounce the qualifying expenditures made from the proceeds of the issue to the purchasers of these shares.

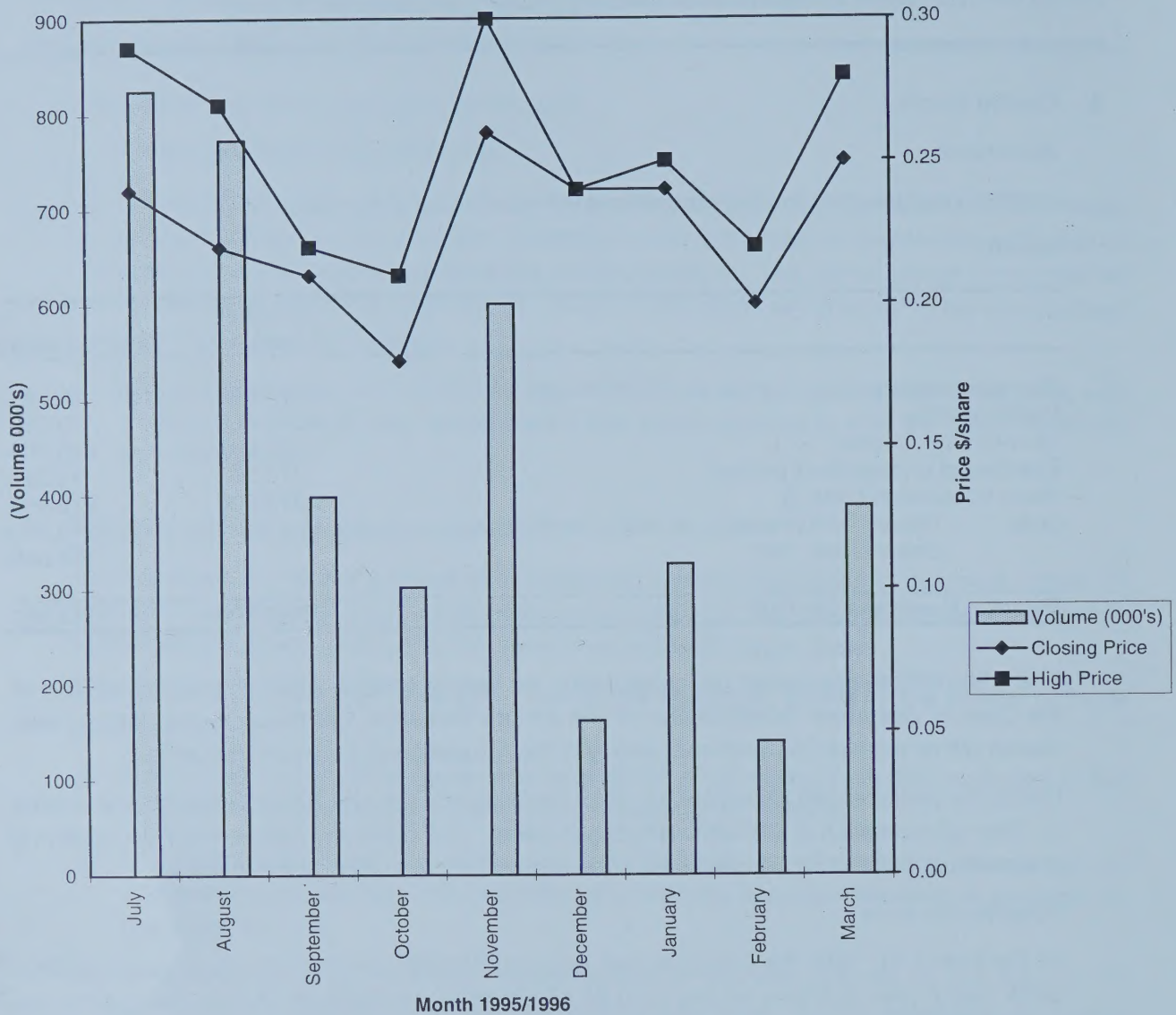
Reserved for issue:

At December 31, 1995 the Company had reserved 842,500 common shares for issue under a stock option plan at prices varying from \$0.10 per share to \$0.19 per share. The options are exercisable from time to time prior to December 12, 2000.

4. Income taxes:

At December 31, 1995 property and equipment with a net book value of \$202,500 is not deductible for income tax purposes.

SHARE TRADING RANGE - PPL



ABBREVIATIONS

bbl	barrel	boe	barrel of oil equivalent
bopd	barrels of oil per day	boed	barrels of oil equivalent per day
mbbls	thousand barrels	mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet	mmboe	million barrels of oil equivalent
mcfd	thousand cubic feet per day	ARTC	Alberta Royalty Tax Credit
mmcf	million cubic feet	conversion	10 mcf: 1 boe
mmcfd	million cubic feet per day	EUB	Alberta Energy And Utilities Board

CORPORATE INFORMATION

HEAD OFFICE

450, 400 - 5th Avenue S.W.
Calgary, Alberta
T2P 0L6
Telephone: (403) 265-9366
Fax: (403) 265-9361

OFFICERS

Orval K. Horn
President and Chief Executive Officer

Vincent J. Tkachyk, P.Eng.
Vice President and Chief Financial Officer

Kari F. Horn
Corporate Secretary

BOARD OF DIRECTORS

Orval K. Horn
Calgary, Alberta

Vincent J. Tkachyk, P.Eng.
Calgary, Alberta

William J. Rodgers, P.Geol.
Calgary, Alberta

John S. Rodgers
Calgary, Alberta

SOLICITORS

Blake, Cassels and Graydon
Calgary, Alberta

AUDITORS

KPMG Peat Marwick Thorne
Calgary, Alberta

TRANSFER AGENT

The Montreal Trust Company of Canada
Calgary, Alberta

BANKER

Hongkong Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Symbol: PPL



PENNANT
PETROLEUM LTD.

450, 400 - 5th Avenue S.W., Calgary, Alberta T2P 0L6
Telephone (403) 265-9366 • Fax (403) 265-9361